

Directive No. 58

**CANCELLATION AND NON-RENEWAL OF COMMERCIAL
PROPERTY AND CASUALTY INSURANCE POLICIES**

July 12, 1985

In recent months, the cancellation of insurance policies and refusal to renew such policies has become widespread and has reached the point that cancellations and non-renewals effectively prevent innocent insureds from obtaining insurance through the normal channels.

A license to transact business in the State of Louisiana carries with it the obligation to conduct such business in a manner consistent with and responsive to the best interests of the citizens of Louisiana. While this Department has no desire to interfere with the contractual relationships of insurance companies, it is believed that the situation regarding cancellations and refusal to renew policies has deteriorated to a point where it is necessary that certain guidelines with respect to these problems be set in order to protect the insurance buying public.

The guidelines hereinafter promulgated, are reasonable standards and are not designed to create a burden or hardship. Nevertheless, it should be made clear that in the event that subsequent experience should prove that a significant number of companies in the industry are either unable or unwilling to follow the principles laid down in these guidelines, corrective measures can be anticipated.

The Commissioner of Insurance hereby promulgates the following guidelines relative to indiscriminate cancellation and arbitrary refusal to renew insurance contracts:

1. Interim cancellations, or refusals to renew at any anniversary date, should be prompted solely by unfavorable underwriting factors pertinent to the individual risk which were not present at the inception of the coverage. Catastrophes shall not be considered underwriting factors pertinent to the individual risk.
2. All companies shall substantiate with valid reason and advise this Department in advance of their intention to

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withdraw from a particular area, agency or class of risk in this State should they deem it necessary to do so.

3. Where mass cancellations are contemplated as the result of discontinuing certain lines, or withdrawal from a certain agency or area and the like, it shall be the responsibility of the company to see that replacement coverage is made without penalty to the insured.

4. Any cancellation of an insured or refusal to renew which was the result of mass cancellation unrelated to the underwriting characteristic of the individual risk shall not be a factor in the subsequent underwriting by other companies.

5. Interim cancellation of policies of insurance by a company and re-writing by the same company or its affiliated companies which results in the insured being penalized by a higher rate is strictly prohibited. This restriction applies to all business whether it is re-written by the original agent, brokered by him or otherwise obtained.

6. Each company shall retain its underwriting information concerning cancellation or refusal to renew individual risks readily available to the Insurance Department and be prepared to justify its underwriting rules and procedures in terms of its rate filings. These records shall be kept until the next regular examination of the company.

7. When a risk or policy produces an unacceptably high loss ratio, insurers should consult the agent to work out a satisfactory solution. Mid-term rate changes or withdrawal of rate credits would be appropriate if warranted by conditions pertaining to a particular risk. Such changes must be in accordance with Louisiana consent-to-rate laws.

8. In the absence of conditions justifying mid-term action as indicated above, companies are directed to allow policies to continue to normal expiration or anniversary date.

The Louisiana insurance rating laws prohibit rates which are excessive, inadequate, or unfairly discriminatory. These laws apply to any rate, rule or rating plan already filed and approved independently or made through rating organizations. Rate increases, includ-

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ing mid-term rate changes and withdrawal of rate credits are subject to disapproval when deemed to be in non-compliance with Louisiana insurance laws.

Please direct any questions to the Property and Casualty Section of the Louisiana Department of Insurance, (504) 342-5300.

Sherman A. Bernard
COMMISSIONER OF INSURANCE

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